

SUPPORT FOR MODERNIZATION OF PENSION SYSTEM MANAGEMENT (PROPREV)

(BR-0327)

EXECUTIVE SUMMARY

Borrower and guarantor:	Federative Republic of Brazil		
Executing agency:	Ministry of Pensions and Social Welfare (MPAS)		
Amount and source:		<u>First phase</u>	<u>Second phase</u>
	IDB (OC):	US\$ 57 million	US\$37 million
	Borrower:	US\$ 57 million	US\$37 million
	Total:	US\$ 114 million	US\$74 million
Terms and conditions:	Amortization period:	20 years	
	Grace period:	3 years	
	Disbursement:	3 years	
	Interest rate:	variable	
	Inspection and supervision:	1 %	
	Credit fee:	0.75 %	
	Currency:	U.S. dollars under the Single Currency Facility	
Objectives:	The purpose of the program is to support modernization of the Brazil pension system management, in the context of its reform approved by the National Congress in 1998.		
	The specific objectives of the program are:		
	(i)	Modernization of the National Social Security Institute (INSS) in order to achieve greater efficiency, effectiveness, and transparency in the management and administration of the General Pension Scheme (RGPS), which serves member workers in the private sector; and	
	(ii)	Strengthening the Pension Secretariat (SPS) to expand its technical assistance capacity at sub-national levels of government, specifically among municipalities, in order to assist them in formulating proposals for reform and in	

modernizing the management and administration of their Public-Sector Pension Schemes (RPP) which serve civil servants.

Multiphase modality:

The program will require more than one project cycle owing to the following features: (i) the program has clearly identified long-term objectives; (ii) a sequence of two successive loans will support the program, with specific objectives and indicators concerning the results attained for the first phase within the overall framework of general development objectives; (iii) there is a financial plan and general description of the investments required, which will be reviewed and adjusted during execution of the first phase; (iv) the program will support development and strengthening of the management of institutions responsible for administering the pension system, centrally and in a number of pilot municipalities; and (v) the program includes the establishment of a well structured system of monitoring and evaluation, including means of verification of project status and defined indicators (triggers) for the second phase.

Description:

The first phase of the program includes execution of the two subprograms described below:

1. Modernization of RGPS Administration (US\$93.6 million), which aims to strengthen the INSS through the following components: (i) Strengthening Management: development and implementation of a new administrative management model that allows for compliance with current policies, having a long-term strategic plan as its fundamental element; (ii) Process Integration: development and implementation of mechanisms to support the integrated execution of activities, through an Information Technology Master Plan (PDTI) as its fundamental element; (iii) Human Resources: development and implementation of mechanisms to assist in strengthening human resources management through a Human Resources Management Plan; and (iv) Service to the Public: development and implementation of procedures and systems that help improve service to the public, including training of civil servants, improving procedures, and implementing and improving self-service systems.

2. Development of Public-Sector Pension Schemes – RPP (US\$5.8 million), which has two components: (i) Strengthening the SPS to improve its technical capacity in three basic functions: a) supervising management of government RPPs; b) supervising development of registration and information systems integrating the databases of the municipal RPPs; and c) preparing technical, legal and institutional studies, and providing the relevant technical training; and (ii) Support for the Reform and Management of Municipal Pension Systems: preparation of technical, legal and institutional studies, and

performance of the actions required to prepare seven pilot projects for public-sector pension system reform at the municipal level.

**Bank strategy
in the country
and the sector:**

The Bank's strategy established in the country paper approved in June 2000 focuses on four basic areas: (i) promoting and expanding modernization of the State; (ii) supporting efforts to improve competitiveness and market access for national production; (iii) reducing social inequalities and poverty; and (iv) addressing environmental and natural resources management issues.

**Social and
environmental
review**

The Committee on Environment and Social Impact (CESI) approved the Profile II summary for this operation on 23 February 2001. CESI recommended verifying that the MPAS will ensure that reconstruction and renovation work at service facilities for INSS members complies with environmental protection procedures as provided in local building codes and national legislation (par. 3.23). CESI also requested that a description be included of how the information available in the systems may be used to monitor the situation of coverage and benefits paid in various categories by gender (par. 4.5).

Benefits:

Implementation of new information systems and management models in pension systems will ensure better quality, transparency, and control in managing beneficiaries' information, and will yield significant improvement in the services provided to affiliates (over 25 million direct private-sector members and 3 million private companies). Better control and security in the system will also help attain higher levels of efficiency and effectiveness in managing the benefits paid by the INSS, which now amount to more than US\$30 billion annually. A substantial reduction in errors and fraud will mean estimated savings in the system of 10 to 20% of the benefits paid. The Municipal RPP subprogram will benefit seven of the largest municipalities directly, and around 200 other municipalities indirectly (par. 1.10), by carrying out the reform and defining new management models for the public-sector pension system. Finally, program implementation will have a positive long-term impact on the fiscal adjustment process.

Risks:

With regard to the INSS subprogram, the main risk in terms of attaining the program's objective is creating consensus on priorities for institutional changes within the INSS. The MPAS, which is aware of this risk, has established the INSS Executive Board and the Technology Committee, and prepared strategic management and information technology plans. These initiatives have facilitated the development of this program. Additionally, the use of the Institutional Development Support Methodology (MDI) was effective in helping form interdisciplinary work teams, and helped achieve the institutional consensus needed for the development phase. It will provide basic support for the program implementation process.

With regard to the Municipal RPP subprogram, the main risk is achieving consensus at the municipal level for defining the reform of their systems. Strengthening of the SPS as provided in the program aims to resolve this problem by disseminating studies and alternative pension management models, and holding discussion workshops with the various parties involved.

Special contractual clauses:

Conditions precedent to the first disbursement: (i) establishment of the program coordinating unit and of the local executing units of INSS and SPS (par. 3.3); and (ii) implementation of an accounting, financial, and internal control system for the program (par. 3.14),

Conditions precedent to the first disbursement of the RGPS modernization subprogram: (i) legal execution instrument between MPAS and INSS (par. 3.5); (ii) establishment of the Information Technology Management Unit (par. 3.6); and (iii) legal instrument between the INSS and “Pension Data Processing Company” (DATAPREV) (par. 3.7).

Conditions precedent to the first disbursement of the RPP development subprogram: (i) the Operating Regulations for the Municipal Pensions component shall be in effect (par. 3.8); and (ii) submission of the draft legal execution instrument for municipal projects, to be signed by MPAS and the municipalities (par. 3.8).

Poverty-targeting and social sector classification:

This operation does not qualify as a poverty-targeted investment or as a social equity enhancing project, as described in the indicative targets mandated by the Bank’s Eighth Replenishment (document AB-1704).

Exceptions to Bank policy:

None.

Procurement:

Procurement of goods and contracting for construction and services will be handled in accordance with the Bank's procedures. The threshold amounts above which international competitive bidding is required are US\$5 million for construction contracts, US\$350,000 for procurement of goods and related services, and US\$200,000 for consulting services.